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¶1. (SBU) John Githongo on the State of Play in Kenya

Former Corruption Czar John Githongo recently shared with us his views on the state of the Kenyan union. Githongo said a large devolution of power had occurred during the 2008 election violence. In his opinion, Kenyan citizens no longer had any trust at all in their government because of endemic corruption, the lack of economic opportunity and absence of political reform. Githongo described a "re-traditionalization" in Kenya, noting the establishment of councils of elders for various tribal groups as well as the creation of numerous neighborhood protection groups, some of which were well run to benefit the local population while others were little more than criminal gangs. Drawing from a study of youth attitudes he recently prepared for USAID, Githongo characterized the country's large youth population as "ready to rumble" and increasingly belligerent about the lack of jobs.

On current political issues, Githongo indicated that Kenya's political elites would not support the ratification of a new constitution unless they felt it served their self-interests. He said PLO Lumumba would become the next director of the Kenyan Anti-Corruption Commission (KACC) but would fail to reform KACC because of the vested interests there. On the Anglo Leasing scandal, Githongo stated that Finance Minister Uhuru Kenyatta condones the continued budgeting of corrupt payments to Anglo Leasing companies.

Note: The Ambassador continues to publicly and privately press the GOK to freeze payments to Anglo Leasing companies, and to release both the Cockar Commission report on the irregular sale of the Grand Regency Hotel and the maize scandal audit. End Note.

¶2. (U) A Glimpse at Kenya's Energy Future

KenGen Director of Business Development and Strategy Albert Mugo recently told EconOff that he expected electricity prices to remain at a premium over the short run. Electricity prices increased in January despite an ample "short rains" season and rising reservoir levels. (Note: Kenya relies extensively on hydro power for inexpensive electricity. The drought has forced the extensive use of expensive thermal power. End Note) Mugo did not expect that electricity prices would decline until the "long rains" arrived in April/May 2010.

Mugo said KenGen is developing a number of new energy projects which should come online over the next few years. Many of these energy projects involve renewables. In 2010, KenGen plans to bring online a 20 megawatt (MW) upgraded hydro plant, a 35MW geothermal addition at Olkaria, a 120MW diesel plant, and potentially a 10MW wind facility. In 2011, KenGen will develop a new 21MW hydro plant. In 2012, KenGen has plans to add and upgrade another 28MW of hydro power, a 2.5MW geothermal plant at Eburru, and a large expansion of the geothermal facility at Olkaria with a 140MW project, Olkaria IV, and another 140 MW project, Olkaria I Units 4 and 5, coming by June 2013. Mugo also said KenGen is currently pursuing a joint venture partner for a 300 MW coal plant to be developed by 2013 near Mombasa. Mugo mentioned that by 2020 KenGen aims to have half of its power derived from geothermal, up from 15% currently.

Kenya Power and Lighting Company (KPLC) is also working on several Independent Power Producer (IPP) agreements with private companies. The Lake Turkana wind project (reftel), which will provide up to 300 MW, recently took a major step forward with the signing of a tariff agreement with KPLC. The last major hurdle for the project involves KPLC finding financing for the large transmission line needed to bring the power to Nairobi. The wind project is expected to begin power production by mid-year 2011 and to be completed by mid-year 2012. In addition, Geothermal Development Associates, an American firm based in Reno, may be developing a 2.5 MW geothermal plant at Eburru in the Rift Valley which is scheduled to come online by January 2011.

¶3. (SBU) Irregular Financial Flows Stabilize the Shilling

Despite a rising current account deficit, the Kenyan shilling remained stable against the dollar throughout 2009. IMF and WB contacts attribute exchange rate stability to robust financial inflows. However, the vast majority of outside money appears to be emerging from irregular sources. According to the Central Bank of Kenya, by November 2009, total financial inflows had reached $2.6 billion of which $2.3 billion were "error and omissions." Sources of funds could include pirate and arms money from Somalia, unrecorded exports to southern Sudan/Sudanese shopping in Kenya, illicit proceeds from narcotics, and unrecorded remittances. The Kenya National Bureaus of Statistics continues to postpone a planned comprehensive investment survey to get a handle on the flows.
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